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SIPDIS

STATE FOR AF/S, AF/EPS, EB/TRA, CA/OCS

POSTS FOR CIVAIR OFFICERS

DAKAR FOR FAA JONES

SENSITIVE

E.O. 12958: N/A

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SUBJECT: NEW MOZAMBICAN AIRLINE RAISES SAFETY AND SECURITY

QUESTIONS

Sensitive but Unclassified - Business Confidential and Law Enforcement Information - Handle Accordingly. Not for Internet Distribution.

Action Request for EB/TRA and CA/OCS in paragraph 13.

¶11. (SBU) Summary: In August 2004, Air Corridor became Mozambique's first private commercial airline to operate nationwide, breaking the monopoly that the government-owned Linhas Aereas de Mocambique (LAM) had maintained since independence. Air Corridor has injected much-needed competition in Mozambique but has raised eyebrows since it is an entirely new company whose true ownership and finances are not well known. Furthermore, Air Corridor's quality of equipment and maintenance capacity pose significant safety and security questions. Pending Department guidance on next steps, Embassy Maputo will not be using Air Corridor for official travel. End Summary.

Business Basics

¶12. (U) Air Corridor is a small but ambitious Mozambican start-up airline. After starting flight operations on August 7, 2004, it is now flying daily from its home base in Nampula (northern Mozambique) to Maputo and the provincial capitals of Beira, Quelimane, and Pemba, with once-weekly service to Tete and Lichinga planned for January 2005. Management hopes to begin international service to Johannesburg, Dar es Salaam, and Nairobi in 2005, but does not have approval from the host governments yet. The airline currently only has one airplane, a 26-year old Boeing 737-200 which it has wet leased from Phoenix Aviation, a Russian-owned company based in the United Arab Emirates. With the wet lease, Phoenix also provides Air Corridor with four Russian and Kazakhstani pilots and maintenance operations based in Nampula. To expand operations, the company plans to switch from wet leasing to dry leasing in mid-2005, and plans to acquire two additional Boeing 737s by dry lease. This arrangement would require Air Corridor to directly hire its own pilots and provide its own maintenance equipment. Air Corridor is not currently a member of the International Air Transport Association (IATA), but has inspections planned and hopes to secure membership in early 2005.

¶13. (SBU) The new airline has been responsible for a steep, immediate, across-the-board cut in airfares within Mozambique. Prior to Air Corridor's arrival, air travel had long been prohibitively expensive for most consumers. For example, roundtrip coach class flights on LAM from Maputo to the northern provincial capitals of Nampula and Pemba had cost over \$500. Air Corridor is now charging 4,300,000 meticais (\$210) for roundtrip flights from Maputo to Nampula and slightly more for Maputo-Pemba. LAM has had to respond in kind, though its prices are still 10-15% higher than Air Corridor fares. Air Corridor is currently operating at roughly 45-50% occupancy, and its management admits that it will lose over one million dollars in its first year of operation. If it has the finances to survive such losses, Air Corridor could develop into a serious competitor in the domestic and perhaps regional market.

Ownership Group

¶14. (SBU) The source of those finances is a serious question, however, with potential security ramifications. The actual owners of the company are difficult to identify. According to CEO Momade Aquil Rajahussen, 95 percent of Air Corridor's shareholders are Mozambican, with additional shareholders based out of India, Sri Lanka, and the United Arab Emirates. The Grupo Gulamo, a corporation owned by members of Mozambique's prominent Gulamo family, owns the majority of shares in Air Corridor. Mr. Aquil serves not only as CEO of Air Corridor but also as Director General of Grupo Gulamo. Mozambican law enforcement officers and even the Gulamo-affiliated travel agency used by Air Corridor believe that the Mozambican ownership content is much less than what Mr. Aquil states. The Omani owner of the five-star Pemba Beach Hotel has been mentioned as a principal shareholder.

¶15. (SBU) The Gulamos are third-generation Mozambican citizens of Pakistani descent who run a wide range of

business interests throughout the country, particularly import-export businesses of electronics, food, and clothing, and also agricultural investments. The family is active in the Islamic community, donating funds to build or reconstruct several mosques throughout the country, among other initiatives. The Gulamo family is associated with a moderate form of Islam. This is reflected in Air Corridor's head office in Nampula, which features many women in mid-to-high ranking positions and a very relaxed dress code.

16. (SBU) Local authorities have long suspected the Gulamo Group of being involved in drug trafficking, and sources in Maputo's police criminal investigation unit (PIC) tell us that they suspect Air Corridor will be used to aid smuggling operations. Rasul Gulamo, a cousin of Mr. Aquil who owns the prosperous Moti rental car company in Nampula, was caught smuggling 40 tons of hashish into Mozambique in 1995, and then 12 tons in 1998. (He was eventually released without trial.) Rasul is not a partner in Grupo Gulamo, however, and there are no publicly known cases of drug smuggling by the Gulamo Group. Nevertheless, the Gulamo family's increasing wealth and evident political connections have kept trafficking suspicions alive. PIC and officials from potential competitor airlines (TAP, SAA) also find it suspicious that Air Corridor has purchased its own tractor and baggage handling equipment, instead of the leasing arrangement it uses for other assets, because they say this could facilitate smuggling operations. Air Corridor management, for its part, said that the LAM-affiliated Mozambique Airport Handling Services had tried to overcharge them for services, which led them to buy their own equipment.

Safety and Reliability

17. (SBU) Air Corridor's safety record has also been left open to question, thanks to a series of incidents that made the local papers. On August 10, Air Corridor's Boeing 737 and a smaller plane from the local charter service Transairways came within minutes of landing on the same airstrip at Maputo airport. A similar incident happened with LAM at Beira airport on August 26, with the LAM Embraier 120 incurring some damage to the undercarriage upon landing. It is difficult to know who is really at fault in these cases. Antonio Pinto, director of Mozambique's civil aviation authority, defended Air Corridor in an early December meeting, telling Emboff that the first incident was Transairways' fault, despite press coverage to the contrary, and that its pilot has been suspended. The second incident he blamed on faulty equipment in the LAM plane.

18. (U) On December 14, the Air Corridor suffered a further setback when a bird apparently was sucked into the left-side engine of its Boeing 737 on a flight from Nampula to Beira, creating considerable damage. The 55 passengers were dropped off in Beira without incident, and the airplane has been awaiting repairs in Beira since then. Phoenix Aviation, responsible for repairs under terms of the lease, has had difficulty acquiring a replacement engine from the United States, which will delay repairs until January. In the meantime, Air Corridor has entered a short-term lease with Inter-Link Airline of South Africa to use an 80-seat DC-9 for regular operations. Daily flights resumed again on December 17.

19. (U) The incident underscores concerns about Air Corridor's ability to maintain a 26-year old Boeing 737-200 that flies up and down the length of the country seven days per week. According to Air Corridor's CEO, the wet lease arrangement with Phoenix Aviation not only provides maintenance equipment in Nampula, but also provides a replacement aircraft of the same model upon reaching 750 flight hours. If, however, Air Corridor decides to expand operations by obtaining further aircraft on a dry lease, as is planned, it is unclear how the airline could carry out quality maintenance operations for additional aircraft unless it is able to secure a route to Johannesburg.

10. (SBU) Air Corridor's safety rests largely on the capacity of Phoenix Aviation to provide timely maintenance, responsible pilots, and sound equipment. Unfortunately, post's knowledge of the company is limited. According to internet sources, Phoenix Aviation is a Russian-owned outfit based out of Sharjah Airport in the United Arab Emirates. Phoenix operates a fleet of over twenty Boeing 737s, 767s, Ilyushin Il-18s, and Antonovs, most of which are leased to other airlines. Companies now leasing from Phoenix include Air Somalia, Kam Air (Afghanistan), Muscat Aviation Services (Oman), and Bismillah Airlines (Bangladesh). Internet sources also claim that Phoenix may have been involved in arms smuggling operations in Africa in the 1990s, while under different ownership. Mr. Aquil states that Phoenix is now a UN contractor working in Sudan and elsewhere, but post could not confirm this. The

airline has a couple of safety blemishes on its record, including a belly landing of an Ilyushin-18 cargo plane in Sri Lanka in February 2004. In 1994, a Phoenix Aviation Boeing 737-200 crashed in England, killing five people.

Why Air Corridor?

¶11. (SBU) Even if Air Corridor manages to resolve its safety and financing issues, observers question why the GRM civil aviation authority would approve the untested Air Corridor as the only competitor for LAM in Mozambique's domestic market. Established airlines such as South African Airways (SAA) and TAP Air Portugal, which both run international flights into Maputo and Beira, are seen as more worthy competitors. Mr. Pinto has argued, in response, that Mozambican law only permits Mozambican-owned companies to operate in the domestic market (in conflict with its Yamoussoukro Decision commitment to enact an Open Skies Agreement with all substantially African-owned companies). International airlines such as SAA, TAP, and Air Mauritius have expressed an interest in acquiring majority or significant minority shares of LAM when it is privatized, but were never interested in working in partnership with a start-up Mozambican company. Outside sources suspect that certain government officials may have received an ownership share in Air Corridor, but no one has evidence to support such an allegation.

Future Outlook

¶12. (SBU) Air Corridor may become a successful, stable airline in the future. It is difficult, however, to say whether and how Air Corridor can withstand months, perhaps years of heavy losses caused by its low fares and middling occupancy rates. If Air Corridor survives, we expect that rumors of drug smuggling and corruption will continue to follow the company, especially since its ownership and financing sources are unknown. Above all, we are concerned that the company's plans for expansion raise additional significant air safety questions that are beyond post's ability to easily answer.

¶13. Action Request: Post requests Department guidance on next steps. Pending receipt of guidance, we will not be using Air Corridor for official travel. Requested guidance includes criteria for authorizing official travel on new airlines and also guidelines for potential advisories to American citizens. Also, post believes that any additional information that info addressees can provide about Phoenix Aviation would be useful.

DUDLEY